

Message Text

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ACTION PM-07

INFO OCT-01 EA-11 ISO-00 CIAE-00 DODE-00 H-03 INR-10 L-03

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FM AMEMBASSY VIENTIANE

TO SECSTATE WASHDC 9418

INFO CINCPAC

C O N F I D E N T I A L SECTION 1 OF 3 VIENTIANE 4622

E.O. 11652: GDS

TAGS: PGOV, PFOR, MOPS, EAID, LA

SUBJECT: ASSESSMENT OF U.S. SECURITY ASSISTANCE PROGRAM FOR LAOS

REF: STATE 31505

THIS CABLE PROVIDES AMBASSADOR'S OVERALL ASSESSMENT, REQUESTED
PARAGRAPH ONE/B REFTTEL, OF THE NEED FOR AND THE EFFECTIVE-
NESS OF THE U.S. SECURITY ASSISTANCE PROGRAM PLANNED FOR
LAOS IN FY 75 AND PROJECTED FOR FY 76-80. (THIS MESSAGE WAS
PREPARED BEFORE AMBASSADOR WHITEHOUSE'S DEPARTURE JUNE 7.)

I. SECURITY ASSISTANCE PROGRAM

1. THE ADMINISTRATION'S REQUESTED MAP-FUNDED SECURITY
ASSISTANCE PROGRAM IS \$90 MILLION FOR LAOS IN FY 75. FOR
THE SUCCEEDING FOUR YEARS OF THE PLANNING PERIOD, WE
PROPOSE THE DECLINING LEVEL OF SECURITY ASSISTANCE SHOWN
BELOW, AS NO SUBSISTENCE AND INVESTMENT ARE PROGRAMMED PAST
FY 76 AND NO AMMUNITION IS PROGRAMMED PAST FY 77. (AIR CONTRACT
EXPENSE AND MEDICAL COST SHARING WILL ALSO DROP AFTER FY 75.)

(IN MILLIONS OF DOLLARS)

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FY 76.....59.0 FY 79.....33.3

FY 77.....37.9 FY 80.....32.8
FY 78.....33.6

BY COMPARISON, U.S. MILITARY ASSISTANCE (MASF) TO LAOS IN FY 73 TOTALED APPROXIMATELY \$276 MILLION AND, IN FY 74, WILL BE ABOUT \$85.6 MILLION. ALL U.S. SECURITY ASSISTANCE HAS BEEN, AND IN THE PLANNING PERIOD MUST CONTINUE TO BE, GRANT AID BECAUSE THE RUDIMENTARY LAOS ECONOMY--WITH LIMITED GNP, BUDGET REVENUES AND FOREIGN EXCHANGE--COULD NOT REPAY FOREIGN MILITARY SALES CREDITS, EVEN WITH DEFERRED FMS TERMS. IN FY 73, FOR INSTANCE, LAOS' ENTIRE GNP WAS ESTIMATED AT \$180 MILLION; THE GOVERNMENT COLLECTED REVENUES OF 22.8 MILLION AND EXPENDED \$43.9 MILLION. THE MILITARY SHARE OF THE BUDGET WAS \$17.1 MILLION OR ABOUT 80 PERCENT OF REVENUES.

2. THE SECURITY ASSISTANCE PROGRAM WE PROPOSE WILL SUPPORT A LAO MILITARY FORCE PROGRESSIVELY CUT FROM CURRENT STRENGTH OF 60,000 MEN TO 50,000 BY THE END OF FY 75. WE BELIEVE THIS RATE OF DEMOBILIZATION IS THE MOST RAPID POSSIBLE CONSISTENT WITH ACHIEVING THE SECURITY ASSISTANCE OBJECTIVES SET FORTH IN THE STATE/DEFENSE PROGRAM GUIDANCE FOR LAOS (PARAGRAPH THREE, STATE 45693). WE BELIEVE IT IS PRUDENT TO CONTINUE TO PLAN AT THAT FORCE LEVEL THROUGH THE PERIOD ENDING FY 80. LOWER LEVELS WILL DEPEND ON THE SATISFACTORY DEVELOPMENT OF THE POLITICAL SITUATION WHICH AT THIS TIME SIMPLY CANNOT BE PREDICTED.

II. NEED FOR SECURITY ASSISTANCE

3. SECURITY ASSISTANCE IS ESSENTIAL TO ACHIEVE U.S. POLICY OBJECTIVES IN LAOS DURING THE COMING YEAR. ASSUMING THE LAO SETTLEMENT SUCCEEDS, THE DOLLAR AMOUNT AND PERHAPS THE CRITICAL NEED OF THIS ASSISTANCE ARE EXPECTED TO DIMINISH DURING PLANNING PERIOD FY 76-80, AS WE ELIMINATE THE SECURITY ASSISTANCE COST CATEGORIES NOTED PARAGRAPH ONE ABOVE. FY 75, HOWEVER, WILL BE A TURNING POINT IN LAO POLITICAL HISTORY, AS THE TWO LAO SIDES, AFTER NEARLY TEN YEARS OF FIGHTING, BEGIN TO TACKLE THE DIFFICULT JOB OF WORKING TOGETHER IN A COALITION AND AS THE PRIME MINISTER SEEKS TO REINTEGRATE THE PATHET LAO INTO THE NATIONAL

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COMMUNITY. THE PRINCIPAL AMERICAN INTEREST IN LAOS AT THIS TIME IS MAINTAINING THE INDEPENDENCE AND NEUTRALITY OF THIS COUNTRY. THIS DEPENDS ON THE SUCCESSFUL FUNCTIONING OF THIS COALITION AND THE SURVIVAL OF THE VIENTIANE SIDE IN THE POLITICAL COMPETITION WITH THE COMMUNIST PATHET LAO. ACHIEVEMENT OF THESE OBJECTIVES WILL CONTRIBUTE IMPORTANTLY TO A NEGOTIATED AND STABLE SETTLEMENT IN ALL OF INDOCHINA. THE LAO SETTLEMENT HAS WON GENERAL INTERNATIONAL

SUPPORT AND OFFERS THE BEST HOPE FOR NATIONAL RECONCILIATION. A BREAKDOWN OF THIS COALITION WOULD, AS DID FAILURE OF ITS TWO PREDECESSORS, HAVE A BROADER IMPACT BEYOND THE KINGDOM ITSELF, ADVERSELY AFFECTING NOT ONLY DEVELOPMENTS ELSEWHERE IN INDOCHINA BUT ALSO OUR BROADER RELATIONS WITH OTHER NATIONS, NOTABLY THE PRC AND USSR.

4. SECURITY ASSISTANCE TO LAOS PLAYS AN IMPORTANT PART IN STABILIZING THE INTERNAL SETTLEMENT AND IN AVOIDING THE REPERCUSSIONS ALLUDED TO ABOVE. IT TAKES TWO TO MAKE A COALITION WORK. THE COMMUNIST SIDE CONTINUES TO RECEIVE AID FROM ITS PATRONS, PARTICULARLY NORTH VIETNAM. THE PATHET LAO WILL CLEARLY SEEK TO PREVAIL IN THE COALITION BY EXPLOITING ANY WEAKNESS OF THE VIENTIANE SIDE. THE VIENTIANE SIDE, WHICH WAS SO HEAVILY DEPENDENT ON THE U.S. IN TIME OF MILITARY HOSTILITIES, CONTINUES TO LOOK TOWARD US FOR SUPPORT IN THE TOUGH BUT PEACEFUL COMPETITION WITH THE COMMUNIST PATHET LAO. THE EXISTENCE OF THE RLGA, AS THE ONLY ORGANIZED NON-COMMUNIST FORCE IN LAOS AND THE STRONGEST BULWARK FOR THE VIENTIANE SIDE, IS POLITICALLY AS WELL AS MILITARILY CRUCIAL TO THE EQUILIBRIUM OF THE LAO COALITION. THE U.S. IS VIRTUALLY THE ONLY SOURCE OF SECURITY SUPPORT FOR THE VIENTIANE SIDE'S ARMED FORCES. THE VIENTIANE SIDE LEADERSHIP BELIEVES, AND WE HAVE DONE NOTHING TO DISCOURAGE THEM IN THEIR BELIEF, THAT THE USG WILL CONTINUE TO SUPPORT THEM AT LEAST DURING THE PROVISIONAL PERIOD OF COALITION. ADEQUATE SECURITY SUPPORT IS THEREFORE IMPERATIVE TO AVOID EITHER (A) SWIFT DEMORALIZATION AND CRUMBLING OF THE VIENTIANE SIDE, WHICH, UNDER THE BEST OF CIRCUMSTANCES, WILL BE SORELY TESTED BY THE PATHET LAO, OR (B) AN IRRATIONAL ACT WHICH COULD OVERTURN THE SETTLEMENT SO PAINSTAKINGLY PUT TOGETHER OVER THE PAST YEAR.

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5. AS INSURANCE AGAINST SUCH CONTINGENCIES, THE DECLINING LEVEL OF SECURITY ASSISTANCE WE PROPOSE FOR LAOS--A LEVEL ALREADY LOW BY COMPARISON WITH PREVIOUS YEARS--IS UNQUESTIONABLY A PRUDENT AND COMPELLING INVESTMENT. IN OUR JUDGMENT, THE \$90 MILLION SECURITY ASSISTANCE FUNDING WE ARE PLANNING FOR FY 75 CONSTITUTES A REASONABLE FORMULA TO ACHIEVE OUR OBJECTIVES.

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III. EFFECTIVENESS OF SECURITY ASSISTANCE

6. THE U.S. SECURITY ASSISTANCE PROGRAM PLANNED FOR FY 75-80 IS INTENDED TO SHAPE AND SUSTAIN A FORCE WITH THE FOLLOWING INTER-RELATED CHARACTERISTICS AND CAPABILITIES:

A) A SMALL BALANCED FORCE ADAPTED TO PEACE-TIME CONDITIONS. THE RLGAFF ARE NOW WELL INTO AN 18-MONTH PROGRAM DURING WHICH MORE THAN ONE-THIRD OF ITS PERSONNEL WILL BE DEMOBILIZED, ENKGA WITH 50,000 MEN IN LATE FY 75. THAT FORCE LEVEL --WHICH MAY ACTUALLY EXCEED LONGRUN MINIMUM REQUIREMENTS FOR INTERNAL SECURITY--CONSTITUTES A REASONABLE STRENGTH DURING THE "PROVISIONAL" PERIOD OF THE COALITION, WHILE THE CEASEFIRE STABILIZES AND EACH OF THE TWO SIDES IS STILL TAKING THE MEASURE OF THE OTHER. TO REACH THE 50,000 FORCE LEVEL REQUIRES A DEMOBILIZATION OF 30,000 MEN OR MORE THAN ONE-THIRD OF THE RLGAFF ROSTER IN 18 MONTHS. FOR A NATION WITH SUCH FRAGILE ECONOMIC AND POLITICAL INSTITUTIONS, THIS DEMOBILIZATION IN AN ENVIRONMENT STILL HIGHLY CHARGED BY SUSPICION AND TENSION, UNDERGOING TRANSITION, IS A TRULY SIGNIFICANT ACHIEVEMENT.

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AT SOME POINT TOWARD THE END OF THIS PRO-

VISIONAL PERIOD AND BEFORE NATIONAL ELECTIONS, THE TWO LAO SIDES ANTICIPATE INTEGRATING THEIR TWO ARMED FORCES. IN COMBINING THE 30,000 PATHET LAO FORCE WITH THE RLG'S 50,000, A FURTHER DECOMBILIZATION WOULD BE INDICATED. FOR PLANNING PURPOSES, WE USE A FINAL FIGURE OF ABOUT 50,000 FOR A COMBINED FORCE. WHEN REALIZED, THIS WOULD REPRESENT A DROP OF NEARLY TWO-THIRDS IN THE TOTAL INDIGENOUS ARMED FORCES IN LAOS. SUCH AN OUTCOME WOULD PERMIT LAOS TO REALLOCATE ITS EXTREMELY LIMITED RESOURCES, BOTH FOREIGN AND DOMESTIC, TO MORE PRODUCTIVE DEVELOPMENT PURSUITS IN KEEPING WITH ITS STATUS AS A NEUTRAL BUFFER STATE.

B) A LIGHTLY-ARMED FORCE IN KEEPING WITH LAOS' ECONOMIC AND MILITARY CAPABILITIES. RLGAF'S EQUIPMENT IS NOW APPROPRIATE TO THE JOB IT MUST PERFORM. THE ARMY HAS NO TANKS; THE AIR FORCE HAS NO JETS. THE SECURITY ASSISTANCE PROGRAM HAS DEVOTED A RELATIVELY HIGH PROPORTION OF ITS FUNDING TO OPERATION AND MAINTENANCE, WHICH HAS BEEN NECESSITATED BY RLG BUDGETARY REALITIES. THIS ALLOCATION HAS, HOWEVER, ENABLED THE RLG TO USE ITS OWN REVENUES TO CARRY OUT OTHER INDISPENSABLE PROGRAMS.

C) A FORCE CAPABLE (DURING THIS PROVISIONAL COALITION PERIOD BEFORE NATIONAL ELECTIONS AND COMPLETE FORCE INTEGRATION) OF MAINTAINING INTERNAL SECURITY WITHIN THE VIENTIANE SIDE'S ZONE AND OF SERVING AS A COUNTER-BALANCE TO THE COMMUNIST PATHET LAO.

D) A FORCE WHICH CAN PERFORM PEACETIME ROLE IN NATIONAL RECONSTRUCTION AND DEVELOPMENT. THE RLGAF IS ALREADY UNDERTAKING SUCH EFFORTS. THE ARMY'S ENGINEERING EQUIPMENT ALREADY HAS BEEN PRODUCTIVELY EMPLOYED IN RECONSTRUCTION AND REHABILITATION PROGRAMS. THE AIR FORCE HAS, ESPECIALLY DURING THE PAST YEAR, USED ITS TRANSPORT PLANES TO ASSUME MUCH OF THE BURDEN OF TRANSPORTING PEOPLE AND CARGO FORMERLY BORNE

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BY U.S. CONTRACT AIR CARRIERS.

E) A FORCE WHICH MAY BE GRADUALLY SUSTAINED BY THE LAO GOVERNMENT ITSELF. AS THE RLGAF (A) BECOMES SMALLER AND (B) IS INCREASINGLY COMMITTED TO PEACETIME FUNCTIONS OF MAINTAINING SECURITY AND LAW AND ORDER, AND OF CARRYING OUT DEVELOPMENTAL PROGRAMS WITH ITS ENGINEERING BATTALIONS, IT SHOULD CONCURRENTLY (A)

LESSEN THE DRAIN ON THE NATIONAL BUDGET (B) WHILE INCREASING ITS CONTRIBUTION TO THE NATION'S ECONOMY. THE DAY WHEN THE RLGAF WILL BE COMPLETELY SELF-SUFFICIENT IS NOT IN SIGHT, BUT THE DIMINISHING PROPORTIONS OF ITS DEPENDENCE UPON U.S. ASSISTANCE ARE ALREADY EVIDENT IN OUR PLANS FOR SECURITY ASSISTANCE IN THE NEXT AND FOLLOWING YEARS.

IV. RELATIONSHIP BETWEEN SECURITY ASSISTANCE AND U.S., THIRD COUNTRY, AND OTHER ECONOMIC ASSISTANCE

A. LAOS' NEED FOR FOREIGN ECONOMIC ASSISTANCE

LAOS IS ONE OF THE LEAST DEVELOPED NATIONS OF THE WORLD. THERE IS A GREAT IMBALANCE BETWEEN THE COUNTRY'S RESOURCES AND ITS PRESSING NEEDS. THIS SITUATION HAS BEEN AGGRAVATED BY MORE THAN A DECADE OF HOSTILITIES WHICH HAVE RETARDED ECONOMIC DEVELOPMENT, DESTROYED MUCH OF THE COUNTRY'S LIMITED INFRASTRUCTURE, AND CREATED A LARGE REFUGEE POPULATION. LAOS' CURRENT ESTIMATED ANNUAL RATE OF FOREIGN EXCHANGE EARNING IS \$20 - \$30 MILLION (EXCLUDING FUNDS PROVIDED BY FOREIGN DONORS BUT INCLUDING NON-RECORDED EXCHANGE EARNINGS) WHILE ESTIMATED REQUIREMENTS ARE \$65 - \$70 MILLION, LEAVING AN ESTIMATED DEFICIT OF \$40 - \$50 MILLION. THE RLG'S ESTIMATED REVENUE, INCLUDING THE FINANCIAL TRANSFER TAX FOR CY 74 (CONVERTED AT 605 KIP PER DOLLAR), IS \$31.7 MILLION WHILE EXPENDITURES ARE \$58 MILHGON, WITH RESULTING ANTICIPATED DEFICIT OF \$26 MILLION. THESE FOREIGN EXCHANGE AND NATIONAL BUDGET DEFICITS ARE MET LARGELY THROUGH CONTRIBUTIONS OF AID DONORS.

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TIONS OF AID DONORS.

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GIVEN THE COUNTRY'S RESOURCE IMBALANCE, ECONOMIC ASSISTANCE IS INDISPENSABLE TO LAOS' CONTINUED ECONOMIC AND POLITICAL STABILITY.

B. U.S. ECONOMIC AID LEVELS

U.S. ECONOMIC ASSISTANCE TO LAOS, INCLUDING PL-480 TITLE II AND THE PHASE II NAM NGUM LOAN, IS ESTIMATED AT \$52 MILLION IN FY 1974 AND PROJECTED AT \$58 MILLION IN FY 1975. NO FIRM BASIS EXISTS FOR PROJECTING U.S. AID LEVELS TO LAOS FOR THE REMAINDER OF THE PLANNING PERIOD, I.E., FY 1976-80. HOWEVER, USAID GUIDANCE FOR THE FY 1976 AID PROGRAM NOTED THAT A FORECAST GIVEN TO THE U.S. CONGRESS SHOWS DECLINING AID LEVELS FOR INDO-CHINA OVER THE NEXT FEW YEARS, WHICH IMPLIES A REDUCTION FOR LAOS. A REDUCTION MAY BE APPROPRIATE ON THE ASSUMPTIONS THAT (A) THE CURRENT CEASEFIRE AND POLITICAL ARRANGEMENTS REMAIN EFFECTIVE; (B) PROGRESS IS MADE IN THE PERMANENT RESETTLEMENT OF REFUGEES; (C) OTHER AID DONORS SUSTAIN OR INCREASE THEIR AID LEVELS; AND (D) THE LAO ASSUME INCREASING PPCTOSPONSIBILITIES FOR OPERATIONALLY ORIENTED USAID PROGRAMS, E.G., HOSPITALS, ROAD BUILDING/REPAIR AND CONFIDENTIAL

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AIRPORT FACILITIES. CONVERSELY, FULL INTEGRATION OF THE COUNTRY WITH UNIFICATION OF CURRENCIES AND RECONSTRUCTION/DEVELOPMENT PROGRAMS EXPANDED TO PL-CONTROLLED AREAS, WOULD REQUIRE A REASSESSMENT OF U.S. ASSISTANCE AND POSSIBLY HIGHER ECONOMIC AID LEVELS.

C. THIRD COUNTRY AND INSTITUTIONAL ECONOMIC AID

OUR BEST ESTIMATES OF TOTAL THIRD COUNTRY AND INTERNATIONAL FINANCIAL INSTITUTION ECONOMIC ASSISTANCE TO LAOS ARE: CY 1974 - \$32 MILLION; CY 1975 - \$43 MILLION; AND CY 1976 - \$43 MILLION. WHILE NO FIRM BASIS EXISTS FOR PROJECTING LEVELS FOR THE PERIOD 1977-0-0, FORMATION OF THE PGNU HAS INCREASED INTEREST OF MANY NATIONS AND INSTITUTIONS IN HUMANITARIAN AND DEVELOPMENT ACTIVITIES IN LAOS. SOME DONORS, SUCH AS AUSTRALIA, WEST GERMANY AND CANADA, ARE PLANNING SIGNIFICANT INCREASES IN THEIR ASSISTANCE. OTHERS, SUCH AS SWEDEN AND THE NETHERLANDS, ARE CONTEMPLATING BEGINNING BILATERAL ASSISTANCE PROGRAMS. SUBSTANTIAL INCREASES IN THE LEVEL OF OTHER DONOR ASSISTANCE TO LAOS MIGHT OCCUR IF THE BLOC COUNTRIES DECIDE TO EXTEND BILATERAL ASSISTANCE FOR THE IMPLEMENTATION OF PROJECTS. ON BALANCE, IT APPEARS LIKELY THAT THE TOTAL AMOUNT OF ASSISTANCE RECEIVED FROM OTHER DONORS WILL CONTINUE TO INCREASE OVER THE PLANNING PERIOD.

D. INTER-RELATIONSHIP OF ECONOMIC AND SECURITY ASSISTANCE

U.S. SECURITY ASSISTANCE, U.S. ECONOMIC ASSISTANCE AND OTHER DONOR ASSISTANCE INTER-RELATE IN PROVIDING FUNDS WHICH SUPPORT OR FINANCE MUCH OF THE YTTTRY'S SERVICES FOR ITS POPULATION.

THROUGH THE FOREIGN EXCHANGE OPERATIONS FUND (FE OF), THE U.S. AND OCINGPDONORS PROVIDE FOREIGN EXCHANGE TO FINANCE NEEDED IMPORTS AND INSURE REASONABLE STABILITY OF THE LAO CURRENCY. U.S. AND OTHER DONOR ECONOMIC ASSISTANCE ALSO FILLS SUCH OPERATIONAL REQUIREMENTS AS MEDICAL SUPPLIES AND LARGE QUANTITIES OF RICE AND OTHER FOODSTUFFS FOR

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REFUGEES. SIMILARLY, ABOUT 90 PERCENT OF THE SECURITY ASSISTANCE PROGRAM IS ALLOCATED FOR OPERATIONS AND MAINTENANCE COSTS OF THE ARMED FORCES, WHICH THE GOVERNMENT WITH ITS LIMITED RESOURCES CANNOT ITSELF ABSORB.

AT THE PRESENT TIME, THEREFORE, FOREIGN ECONOMIC AND SECURITY ASSISTANCE PRIMARILY SUPPORTS ON-GOING GOVERNMENT PROGRAMS RATHER THAN MAJOR INVESTMENT IN DEVELOPMENTAL PROJECTS. ANY REDUCTION IN ONE CATEGORY OF ASSISTANCE WOULD HAVE AN IMMEDIATE IMPACT ON OTHER CATEGORIES, AS THE GOVERNMENT WOULD HAVE TO REALLOCATE ITS LIMITED BUDGET AND FOREIGN EXCHANGE RESOURCES. SPECIFICALLY, TO COMPENSATE FOR CUTS IN SECURITY

ASSISTANCE, THE GOVERNMENT--IN ABSENCE OF AN
EQUIVALENT INCREASE IN ECONOMIC ASSISTANCE--WOULD
HAVE TO DIVERT FUNDS FROM ALREADY INADEQUATE
GOVERNMENT SERVICES IN ORDER TO SUSTAIN ITS ARMED
FORCES. CONVERSELY, REDUCTIONS IN ECONOMIC ASSISTANCE
WOULD DIMINISH THE LAO GOVERNMENT'S CAPABILITY TO
CONTRIBUTE TO THE MAINTENANCE OF ITS ARMED FORCES,
WHICH, AS INDICATED IN SECTION II, ARE THE VIENTIANE
SIDE'S UNDERPINNING IN THE COALITION EQUILIBRIUM.
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